THEORY OF DEMAND

Demand: It is the *quantity of a commodity (good, or service)* that a *consumer is willing to purchase* at a *given price*, during a *given time period (e.g. daily, weekly, monthly, yearly etc.)*

Determinants of Demand: The factors which affect the demand for a commodity are called the determinants of demand for the commodity. These include:

(i) Price of the Commodity.

(ii) Prices of Related Commodities.

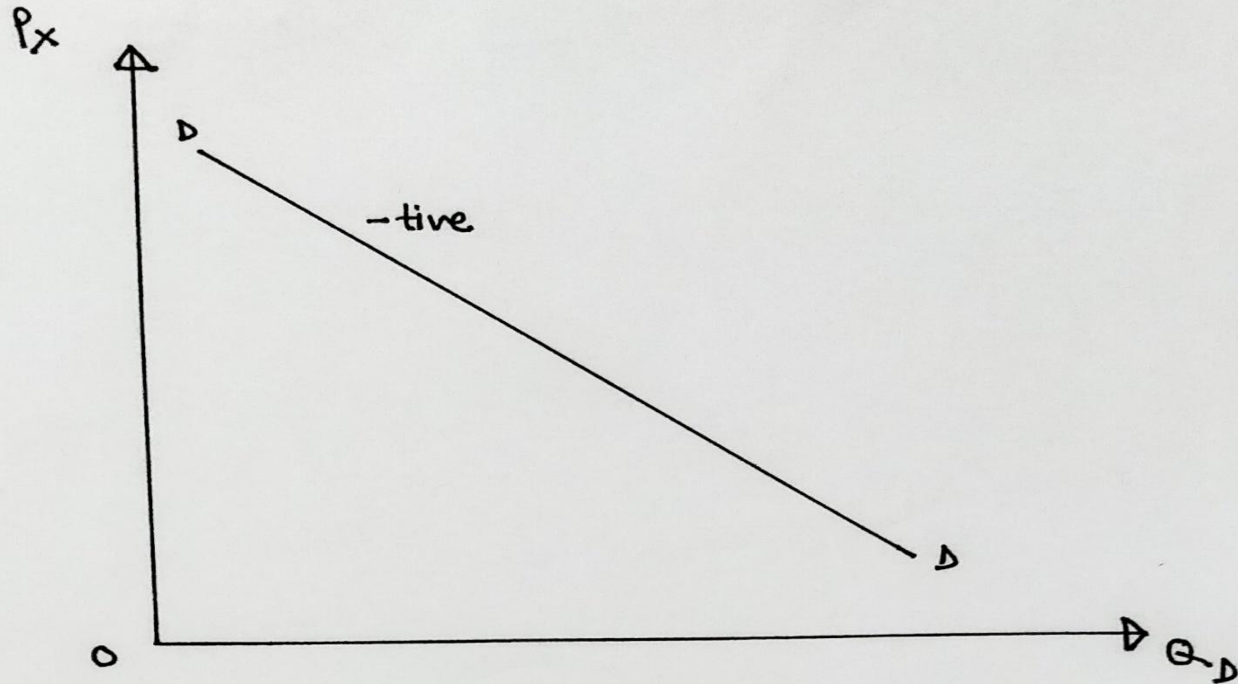
(iii) Income of the Consumer.

(iv) Weather Conditions.

(v) Tastes and Preferences.

(vi) Consumer's Expectations, regarding 'Future Price' of the Commodity.

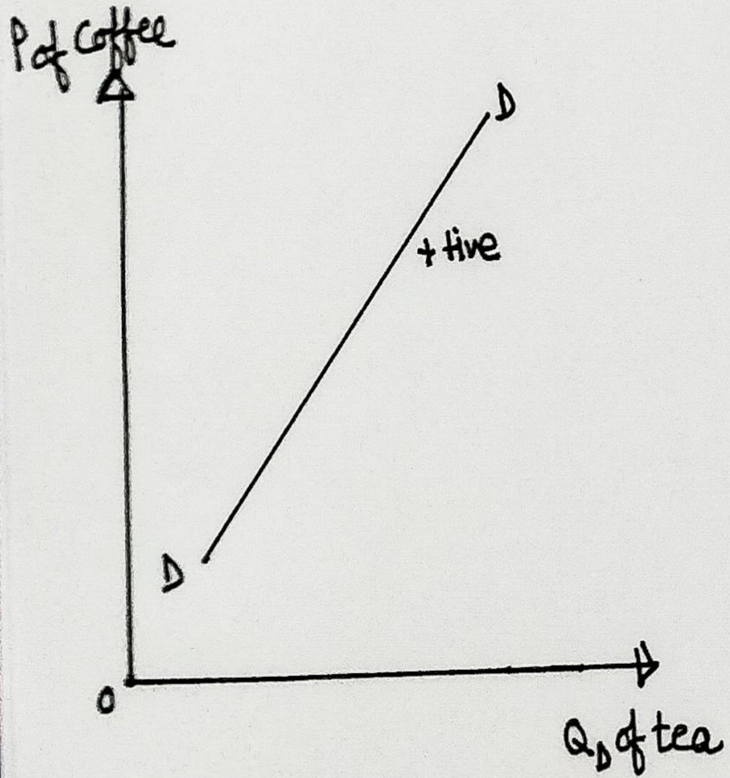
1. **<u>Price of the Commodity</u> (P_x)**: There is an *<u>inverse (or negative)</u>* <u>relationship</u> between the quantity demanded of a commodity and its price, assuming that the other factors or determinants of demand remain constant during the given time period (also called, *Ceteris Paribus* – in Latin). This is known as the "LAW OF DEMAND".



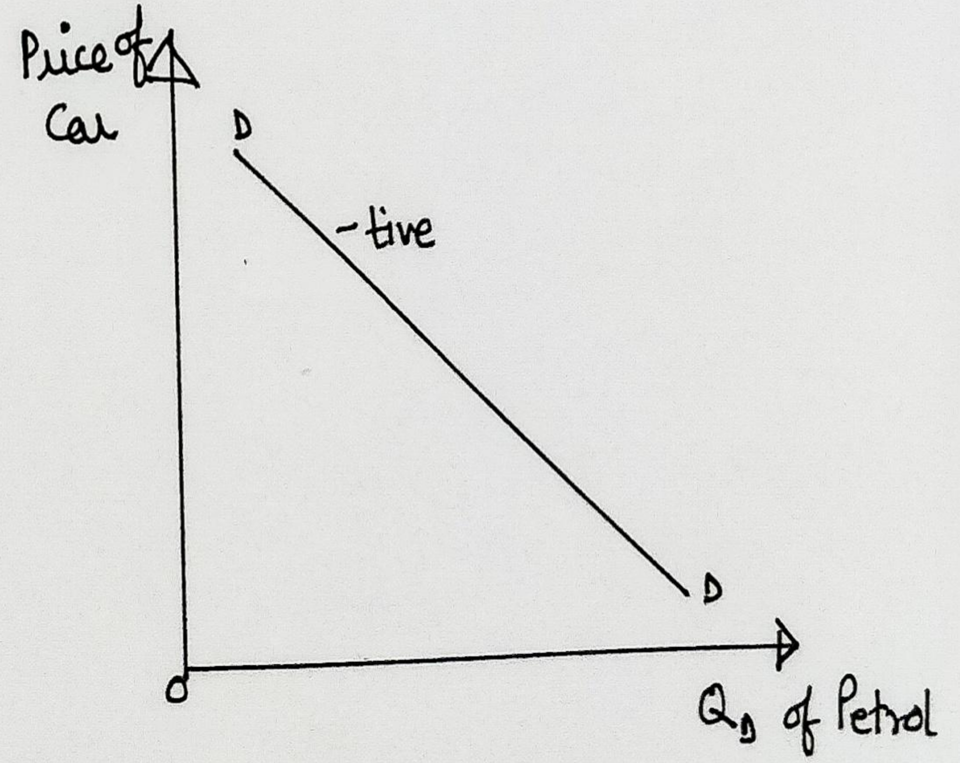
2. **<u>Price of Related Commodities</u>** **(P_Y)**: Related commodities can be of two types, **Substitute** Commodities, or **Complementary** Commodities.

(a) <u>*Substitute Commodities*</u>: These are commodities which can be used in place of each other. They satisfy the same want and give similar satisfaction to the consumer. e.g. Tea and Coffee, Coke and Pepsi. There is a <u>*positive* relationship</u> between the price of a substitute commodity and the quantity demanded of a given commodity, as they substitute each other.

(b) <u>*Complementary Commodities*</u>: These are commodities which cannot be used without each other, or they are used together to satisfy a want. e.g. Ink and Pen, Car and Petrol, Shoe and Polish. There is a <u>*negative* relationship</u> between the price of a complementary commodity and the quantity demanded of a given commodity, as they complement each other.



Substitute Commodities



Complementary commodities